Government of Manitoba

Economic and Fiscal Background

1986 Autumn Consultations

Honourable Eugene Kostyra
Minister of Finance

Manitoba

Minister of Finance

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Fall, 1986.

Dear Manitoban:

As Minister of Finance, I welcome the opportunity to consult regularly with a wide number of Manitoba groups and organizations on a range of fiscal and economic issues facing our Province. In order to make this exercise productive and informative, I am pleased to make available the attached background information, which includes the data in today's audio-visual presentation. I trust the material will be useful to you and your organization.

Our meetings this fall focus on our provincial economy, which is forecasted to continue to outperform that of our nation as a whole, and on the less favourable fiscal situation facing our Government. In particular, we will be examining our revenue picture, which is dominated by falling federal transfer payments, and our expenditure options, which obviously must continue to be constrained as we confront an unacceptably high deficit and uncertainty regarding both federal funding and federal tax reform.

We face a difficult and challenging situation, which must be approached in a spirit of consultation and with a firm commitment to principles of fairness. I invite your organization to participate in this process as we strive together to build a stronger and fairer Manitoba.

Yours truly,

Eugene Kostyra,
Minister.

Att'd.

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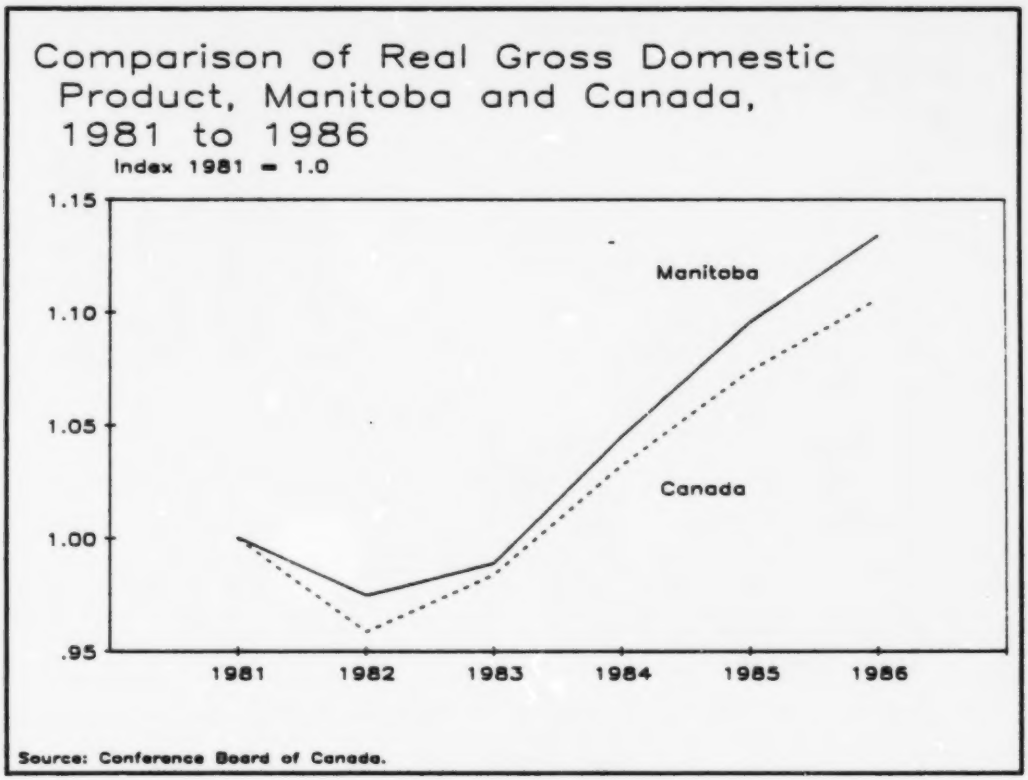
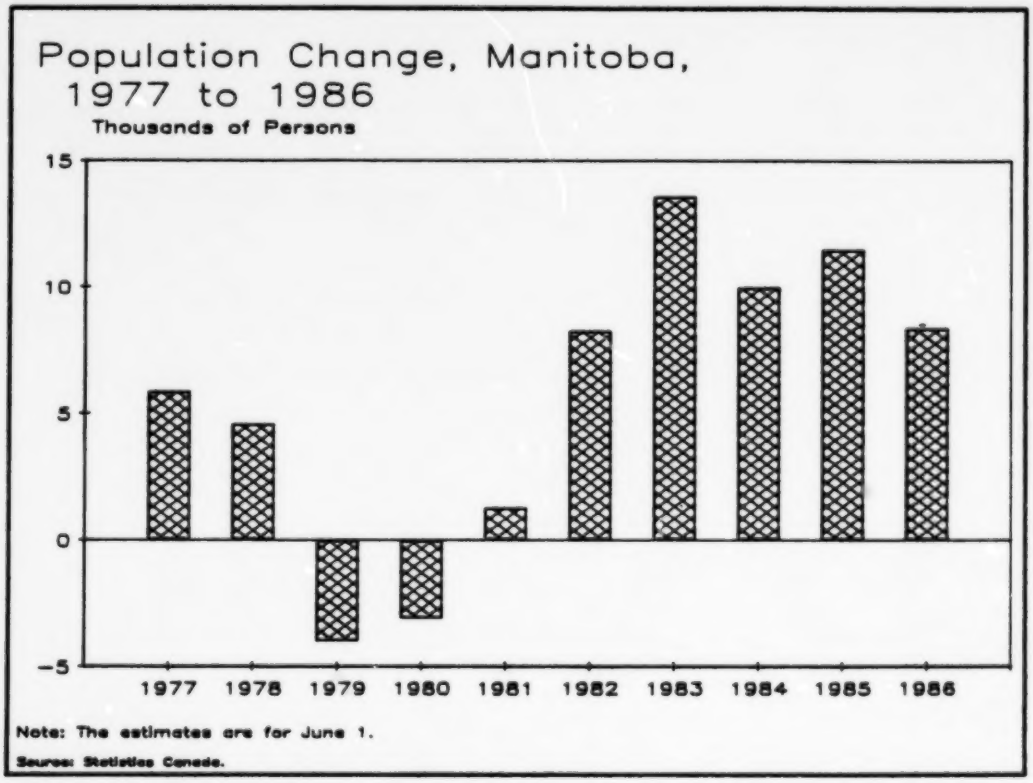
CHART 1



- The severity of the recession was not as pronounced in Manitoba as in Canada as a whole.
- Between 1981 and 1986, the net increase in real Gross Domestic Product in Manitoba was 13.4% while in Canada this increase amounted to 10.6%.

CHART 2



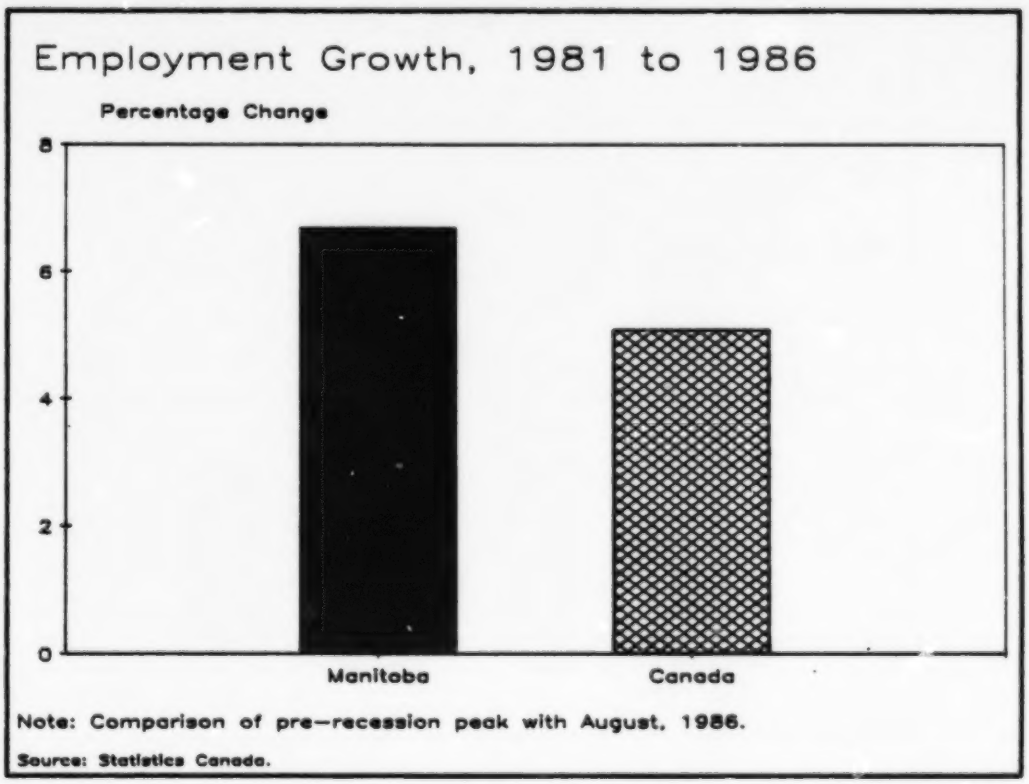
POPULATION, MANITOBA, 1975 TO 1986

Year	Population (Thousands)	Year	Population (Thousands)
1977	1,027.4	1982	1,034.5
1978	1,032.0	1983	1,048.1
1979	1,028.0	1984	1,058.1
1980	1,024.9	1985	1,069.6
1981	1,026.2	1986p	1,078.0

p - projected
Note: Estimates are for June 1.
Source: Statistics Canada and the Manitoba Department of Finance.

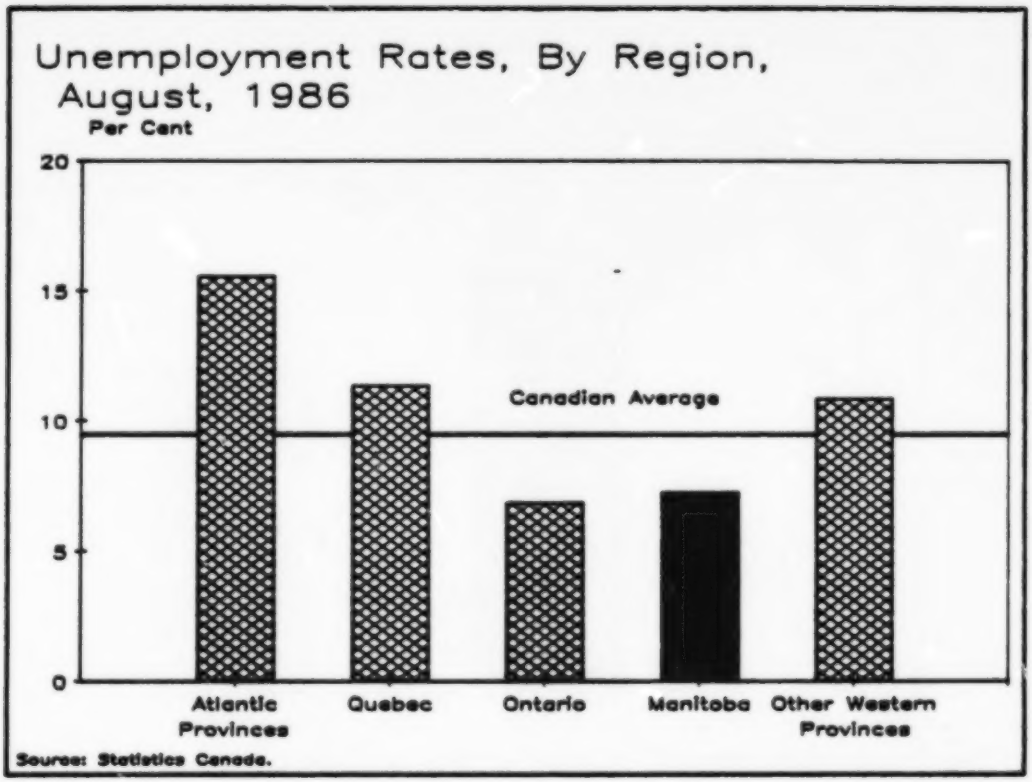
* During the past five years, Manitoba's population has increased by approximately 52,000, an average annual rate of 1.0%, the fastest growth since the early 1960's.

CHART 3



- Over the past five years, employment growth in Manitoba has been among the strongest of all provinces.
- Employment in August, 1986 stood at 494,000, 6.7% above its pre-recession peak in Manitoba, compared to a 5.1% increase for Canada as a whole.

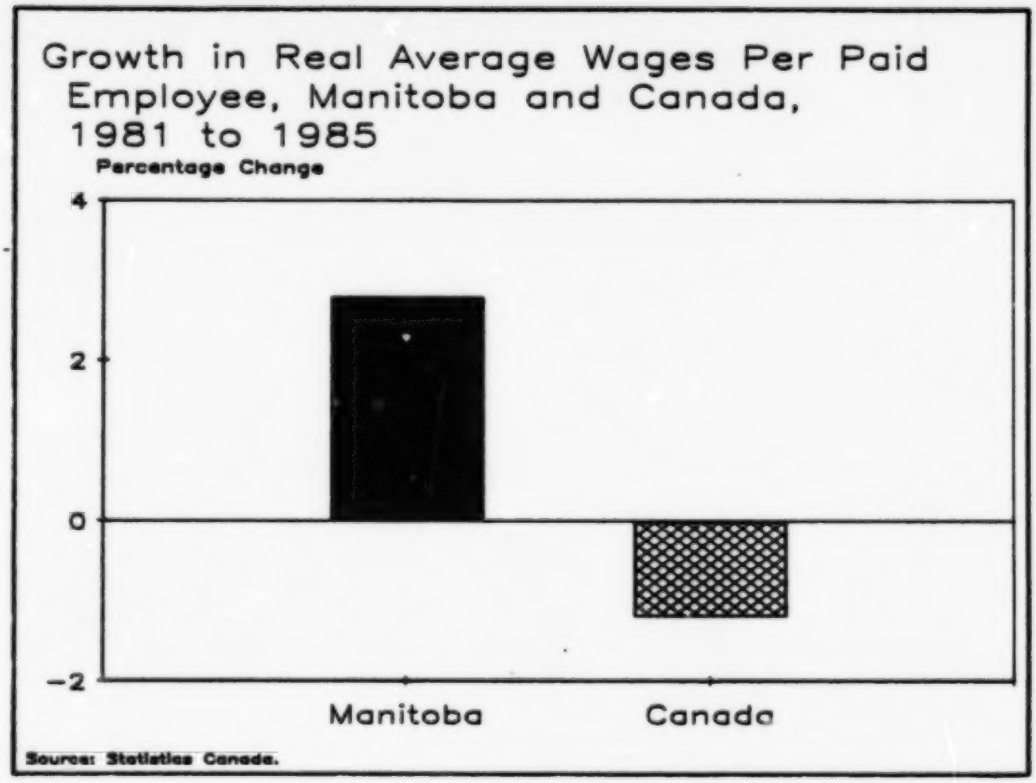
CHART 4



- The unemployment rate in Manitoba stood at 7.3% in August, 1986 — the second lowest among provinces and 2.4 percentage points lower than the national average of 9.7%.

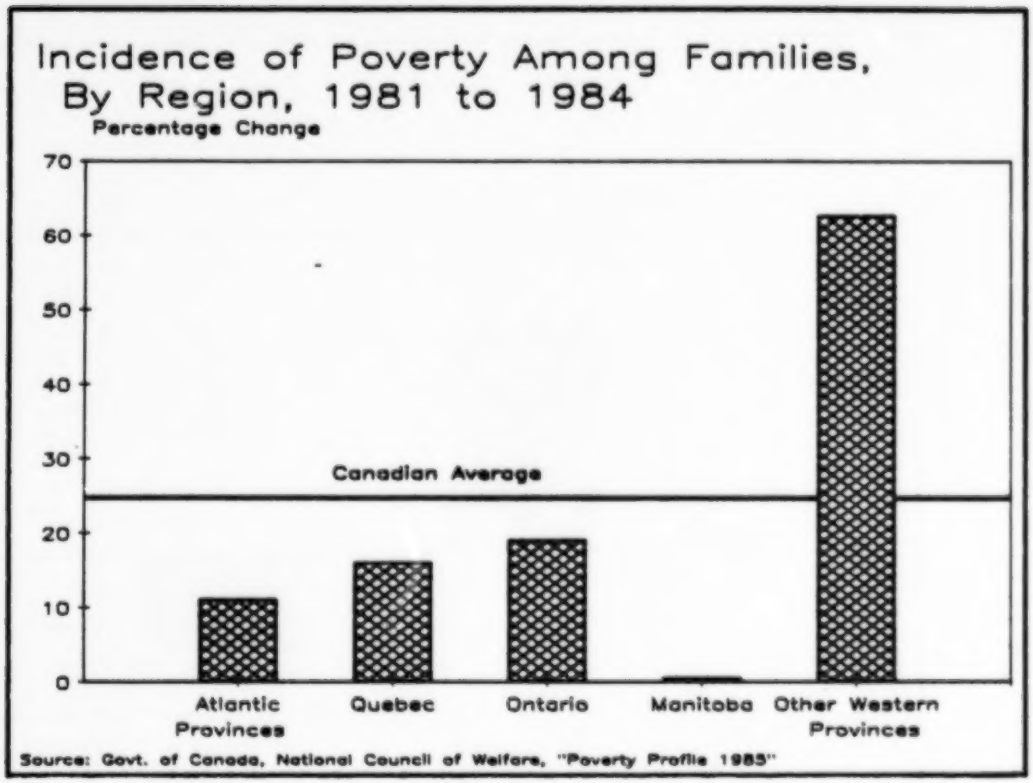
- The youth unemployment rate in August, 1986 stood at 8.7% — the lowest among provinces and about one-third lower than the national average rate of 12.7%.

CHART 5



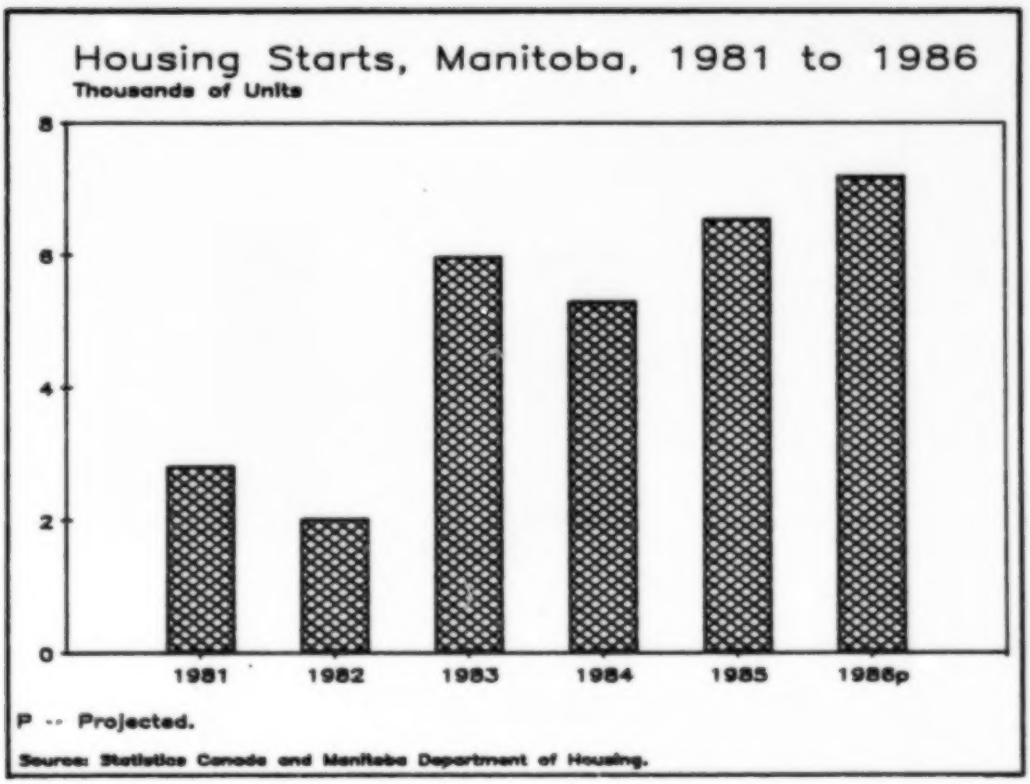
- Between 1981 and 1985, average wages and salaries per paid employee increased by 2.8% more than inflation in Manitoba. In Canada as a whole, average wages and salaries per paid employee increased by 1.2% less than inflation.

CHART 6



- The proportion of families with incomes below the poverty line has remained virtually unchanged in Manitoba between 1981 and 1984, while rising by 25% in Canada as a whole.

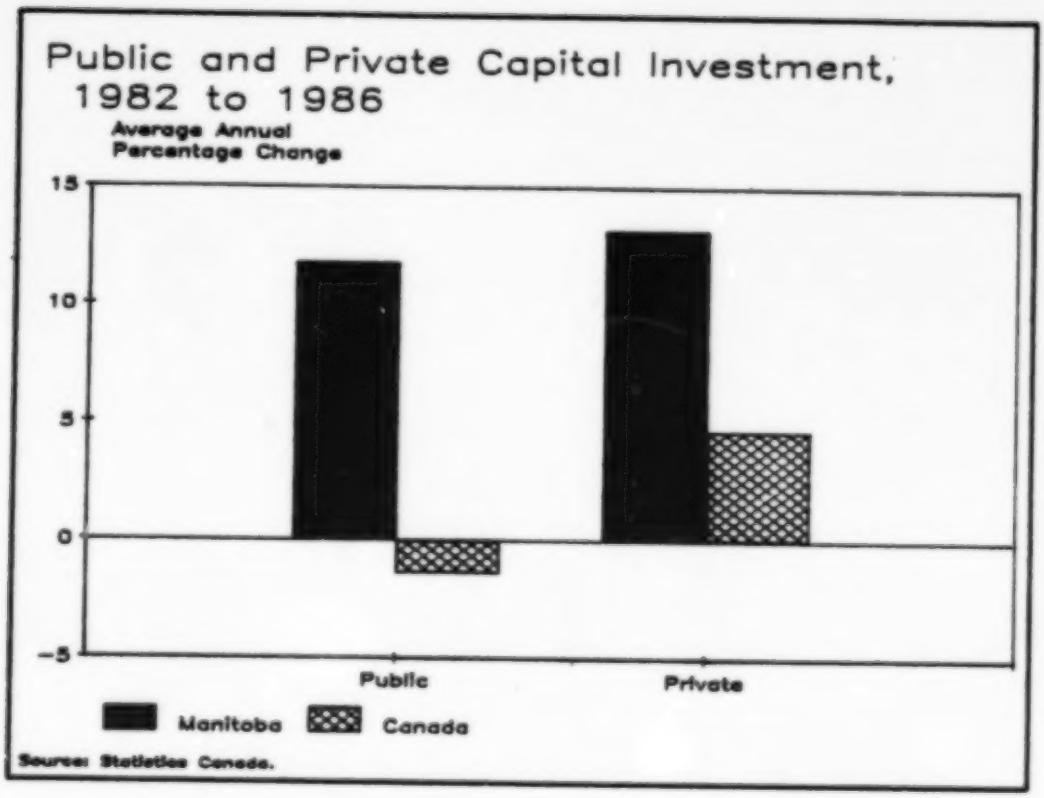
CHART 7



- Housing starts over the 1983 to 1985 period averaged almost 6,000 units — more than double the average of about 2,500 units in the early 1980's.

- In 1986, housing starts in Manitoba are expected to reach a eight-year high of more than 7,000 units.

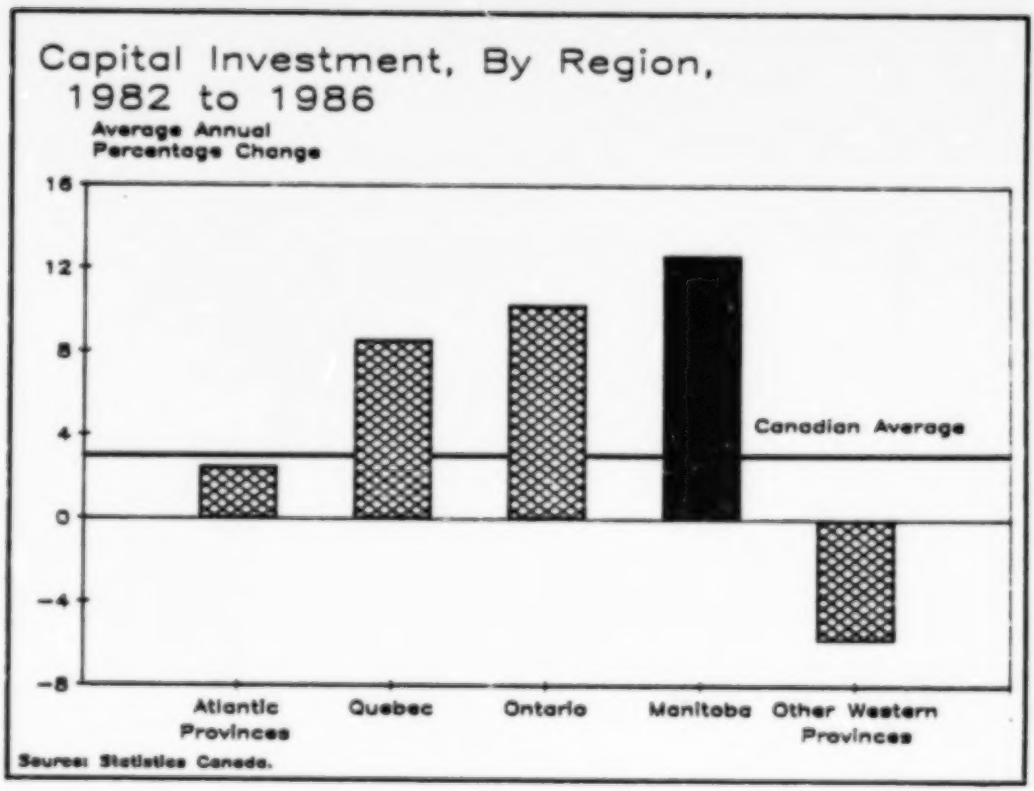
CHART 8



- Public sector capital investment is projected to reach $1,052 million in 1986, an average annual increase of 11.8% since 1982, compared with an average annual decline for Canada of 1.4%.

- Private capital investment in Manitoba is projected to reach $2,100 million, an average annual increase of 13.2% between 1982 and 1986, compared with an average annual increase for Canada of 4.9%.

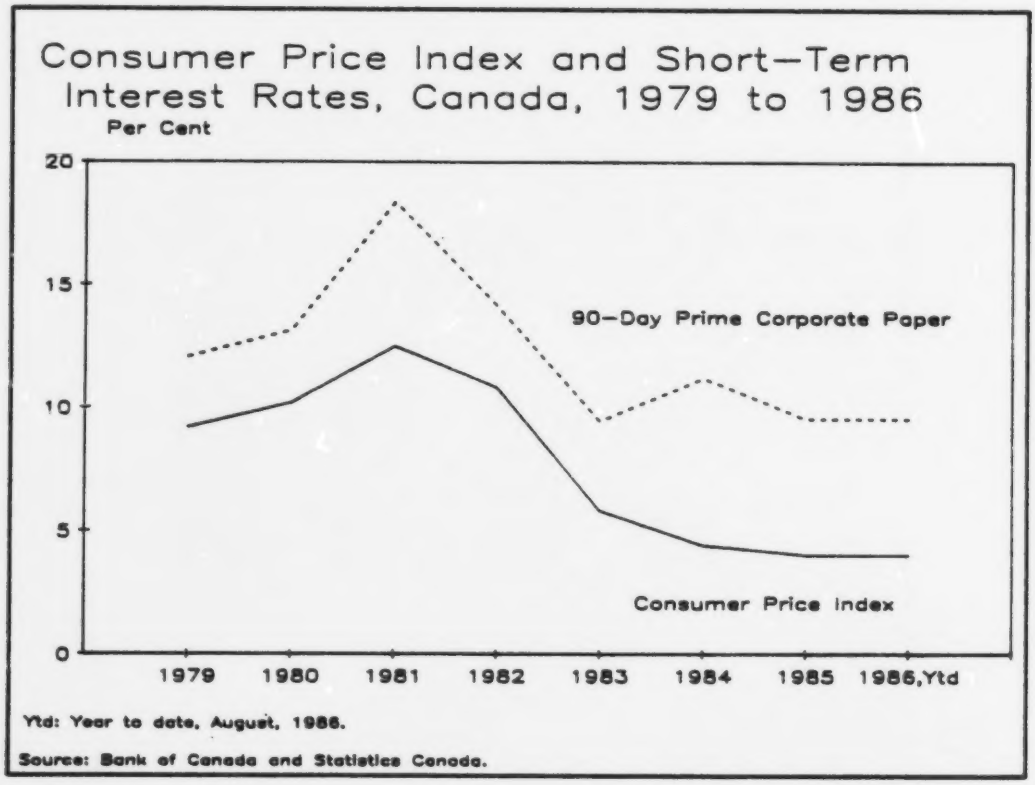
CHART 9



- Total capital investment in Manitoba is projected to reach $3,153 million in 1986, an average annual increase of 12.7% since 1982.

- This rate of increase is the highest among provinces and more than four times the national average increase of 3.1%.

CHART 10



	90-Day Prime Corporate Paper (%)	5-Year Mortgage (%)	CPI (% Change)
1979	12.07	11.98	9.2
1980	13.15	14.32	10.2
1981	18.33	18.15	12.5
1982	14.15	17.89	10.8
1983	9.45	13.23	5.8
1984	11.19	13.58	4.4
1985	9.56	12.13	4.0
1986, YTD	9.54	11.22	4.1
1986, Aug.	8.51	11.00	4.3

YTD — Year-to-Date, Average to August, 1986.
Source: Bank of Canada Review and Statistics Canada.

- Inflation and interest rates have come down since the early 1980's. In August, 1986, the consumer price index was 4.3% higher than a year earlier, and short-term interest rates averaged approximately 8.5%.

TABLE 1

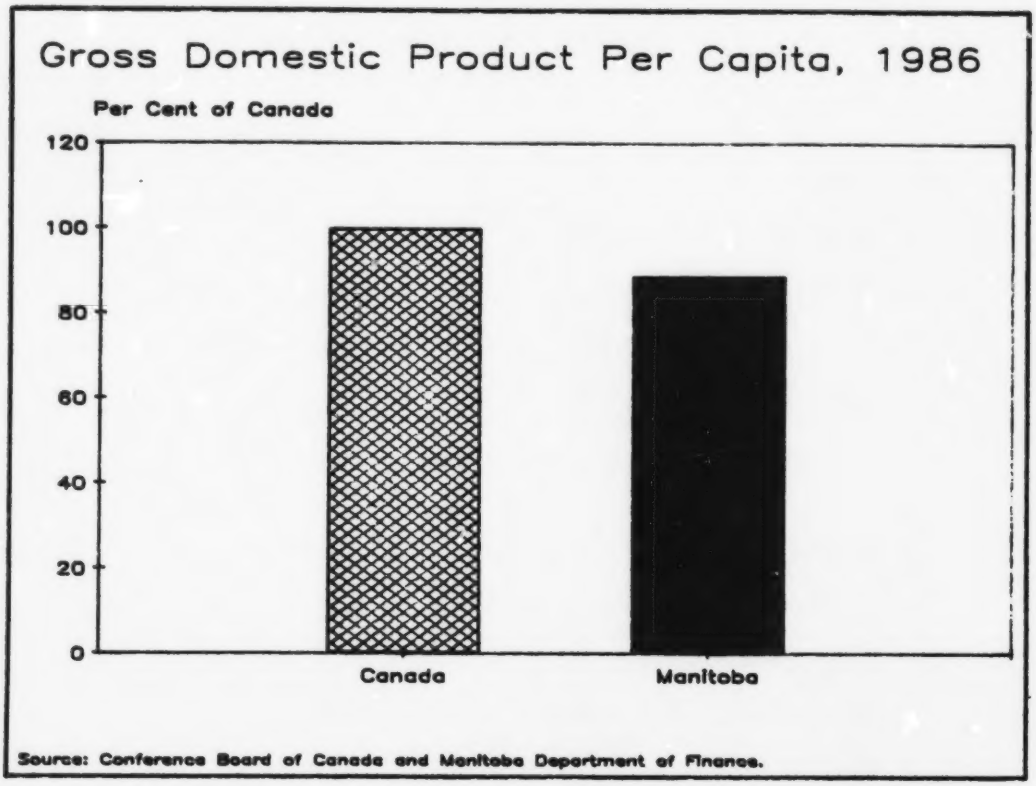
ECONOMIC FORECASTS, 1986 AND 1987

	Real GDP		Nominal GDP	
	1986	1987	1986	1987
	(% Change)			
Manitoba				
Conference Board (Sept., 1986)	3.5	3.8	6.8	7.4
Royal Bank (July, 1986)	4.0	4.0	7.0	8.1
Informetrica (May, 1986)	3.3	4.6	-	-
Bank of Nova Scotia (April, 1986)	3.8	-	-	-
Canada				
Conference Board (Sept., 1986)	2.9	2.1	6.8	6.7
Royal Bank (July, 1986)	3.5	3.0	6.7	7.0
Informetrica (May, 1986)	4.3	3.9	-	-
Bank of Nova Scotia (April, 1986)	3.3	-	-	-

Source: as noted.

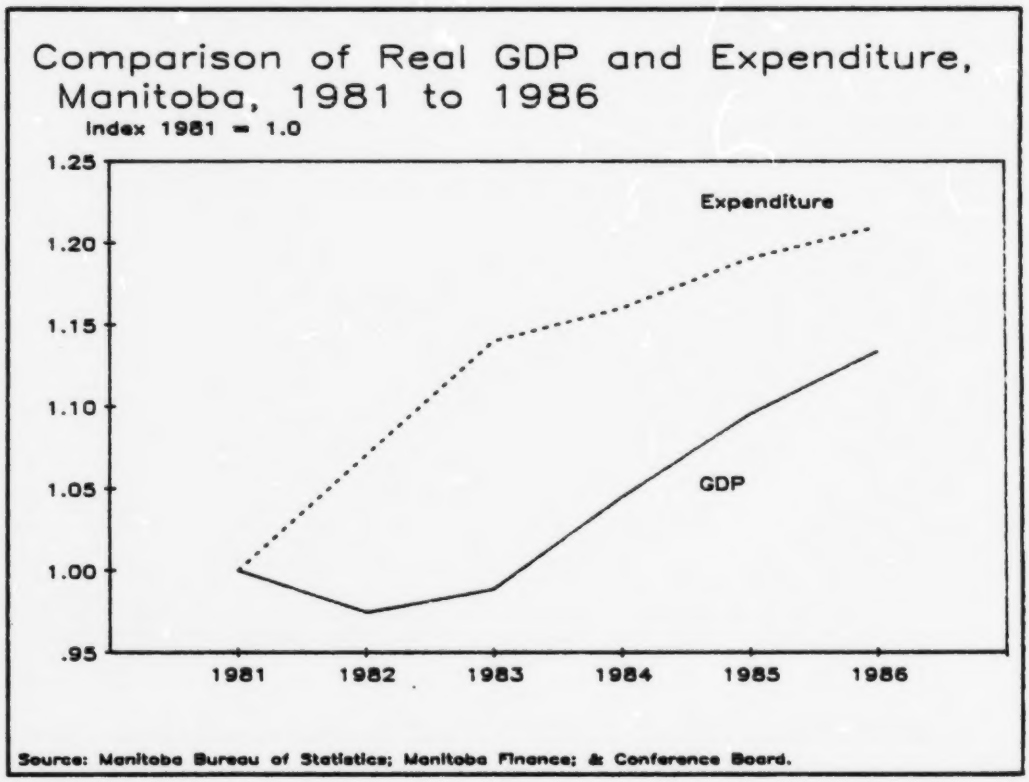
- Most forecasters expect continued above average economic performance in Manitoba.

CHART 12



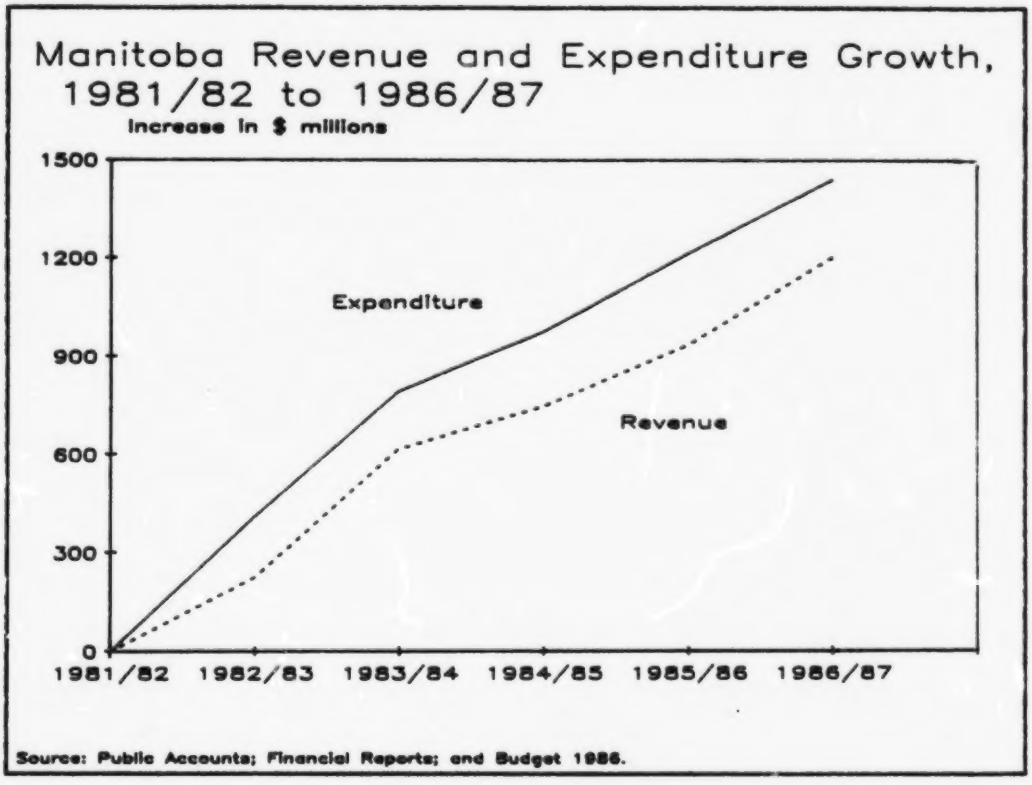
- Despite improvement in Manitoba's economy relative to the national average, Gross Domestic Product per capita remains about 10% lower in Manitoba than in Canada as a whole. This gap amounted to approximately $2,200 in 1986.
- This means that the Province has a lower capacity to rise revenue than the national average.

CHART 13



- Manitoba, unlike many other provincial governments, maintained vital services and supported the economy through a period of recession and recovery.

CHART 14



- Expenditures have grown more than revenues.

TABLE 3

REVENUE GROWTH FORECAST
1987/88

		($ millions)
Manitoba Own-Source Revenue:		+120
Federal Transfers:		
Equalization	<30>	
Financing for Health and Higher Education	+10	
Net Loss in Federal Transfers		<20>
Revenue Change ($ millions)		+100

Note: Assuming no tax changes and no changes in current federal tra formulae.

Sources: Federal Finance; Manitoba Finance.

- Total revenue growth, constrained by a drop in federal transfers of $20 million is projected at close to $100 million, or less than 3% of 1986/87 revenue.
- More than one-half of revenue growth will be required to meet new debt servicing costs associated with the deficit.
- Resources available for increases in program needs, non-discretionary costs and deficit reduction are extremely limited.

FEDERAL TRANSFER PAYMENTS TO MANITOBA

	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	Preliminary Actual 1985/86	Budget 1986/87	% Change 1979/80 to 1986/87
Federal Transfers $ millions	771.6	834.0	837.5	919.4	1,037.9	1,097.6	1,105.3	1,176.8	52.5
Total Revenue $ millions	1,806.0	1,968.4	2,180.8	2,409.0	2,797.2	2,924.6	3,115.5	3,380.2	87.2
Transfers as % of Total Revenue	42.7	42.4	38.4	38.2	37.1	37.5	35.5	34.8	<7.9>

*As portion of total revenue.

Source: Public Accounts, Financial Reports, 1986/87 Budget.

TABLE 2

PROJECTED MAJOR FEDERAL CASH TRANSFERS
1986/87 AND 1987/88

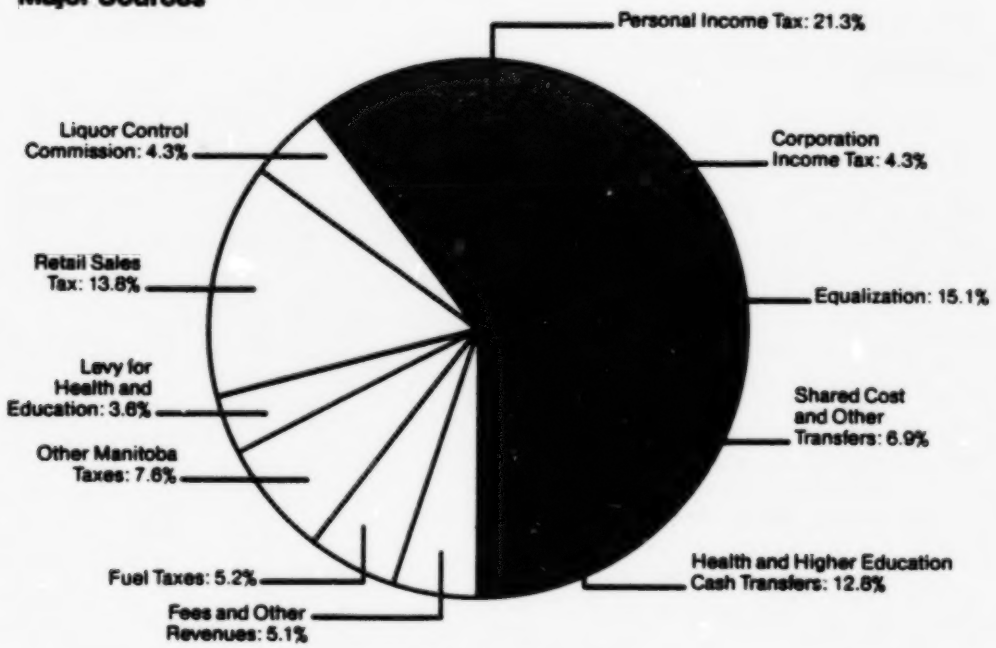
	1986/87 Budget	1987/88 Projected
	($ millions)	
Federal Financing for Health and Higher Education	434	445
Equalization	511	481
Total	945	925

Totals may not add due to rounding.

Source: Federal Department of Finance.

- Federal cash transfers for health and higher education will show very limited growth.
- Equalization payments are projected to decline by approximately $30 million in 1987/88 from current payment levels.
- After current equalization formula payments, recipient provinces have a shortfall from national average fiscal capacity of $560 per family of four.

Provincial Revenue, 1986/87
Major Sources


Personal Income Tax: 21.3%
Corporation Income Tax: 4.3%
Equalization: 15.1%
Shared Cost and Other Transfers: 6.9%
Health and Higher Education Cash Transfers: 12.8%
Fees and Other Revenues: 5.1%
Fuel Taxes: 5.2%
Other Manitoba Taxes: 7.6%
Levy for Health and Education: 3.6%
Retail Sales Tax: 13.8%
Liquor Control Commission: 4.3%
FEDERAL TRANSFERS: 34.8%
INCOME TAXES: 25.6%
MANITOBA COLLECTIONS: 39.6%

ESTIMATES	$ Millions		$ Per Capita	
Manitoba Collections		1,337.2		1,238
Retail Sales Tax	465.0		431	
Fuel Taxes	175.6		163	
Liquor Commission	145.0		134	
Levy for Health and Education	123.5		114	
Other Taxes	256.1		237	
Fees and Other Revenue	172.0		159	
Income Taxes		866.2		802
Corporation Income Tax	146.5		136	
Personal Income Tax	719.7		666	
Federal Transfers		1,176.8		1,090
Equalization	510.8		473	
Health and Higher Education	434.0		402	
Shared-Cost and Other	232.0		215	
TOTAL REVENUE		3,380.2		3,130

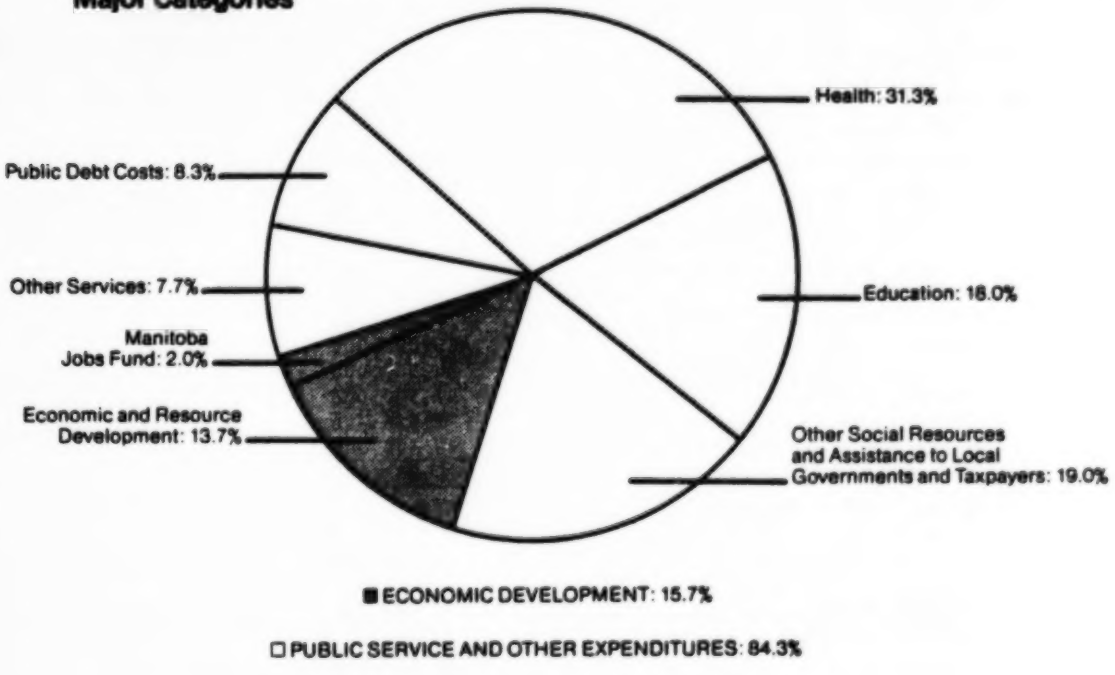
1986/87 Revenue Estimates

		1986/87 Estimate	% of Total
OWN SOURCE REVENUE			
Manitoba Collections		$1,337,246,600	39.6
Taxes, Levies and Collections			
• Corporation Capital Tax	$ 41,100,000		
• Gasoline Tax	115,000,000		
• Insurance Corporations Tax	17,200,000		
• Levy for Health & Education	123,500,000		
• Mining Tax	35,600,000		
• Motive Fuel Tax	60,600,000		
• Oil & Natural Gas Tax	7,000,000		
• Retail Sales Tax	465,000,000		
• Revenue Act, 1964, Part I	34,500,000		
• Tobacco Tax	97,500,000		
• Other Taxes	5,155,300		
• Reciprocal Taxation Agreement	18,100,000		
Sub-Total	$1,020,255,300		
Fees and Other Revenue			
• Fines & Costs; Land Titles; & Other Legal	$ 26,089,000		
• Minerals & Petroleum & Other Energy & Mines	5,089,600		
• Automobile & Motor Carrier Licences & Fees	30,320,600		
• Drivers' Licences	5,804,400		
• Water Resources	31,267,400		
• Parks; Forestry; Fisheries & Other Natural Resources	12,801,200		
• All Other Manitoba Collections	60,619,100		
Sub-Total	$ 171,991,300		
Liquor Control Commission	$ 145,000,000		
Income Taxes		866,200,000	25.6
• Corporation Income Tax	$ 146,500,000		
• Individual Income Tax	719,700,000		
FEDERAL TRANSFERS		1,176,759,700	34.8
Equalization	$ 510,800,000		
Health and Higher Education Cash Transfer	$ 434,000,000		
Shared-Cost and Other Transfers			
• Canada Assistance Plan	$ 152,496,000		
• Canada-Manitoba Training Agreement	22,570,800		
• Other	56,892,900		
Sub-Total	$ 231,959,700		
TOTAL REVENUE		$3,380,206,300	100.0

Source: 1986 Manitoba Budget.

Provincial Expenditure, 1986/87

Major Categories


Health: 31.3%
Public Debt Costs: 8.3%
Other Services: 7.7%
Education: 18.0%
Manitoba Jobs Fund: 2.0%
Economic and Resource Development: 13.7%
Other Social Resources and Assistance to Local Governments and Taxpayers: 19.0%
ECONOMIC DEVELOPMENT: 15.7%
PUBLIC SERVICE AND OTHER EXPENDITURES: 84.3%

ESTIMATES	$ Millions	$ Per Capita
Health	1,209.8	1,120
Education	697.1	645
Other Social Resources and Assistance to Local Governments and Taxpayers	736.3	682
Economic and Resource Development	528.7	490
Manitoba Jobs Fund	78.4	73
Other Services	297.0	275
Public Debt Costs	322.3	298
TOTAL EXPENDITURES	**3,869.6**	**3,583**

1986/87 Expenditure Estimates

		1986/87 Estimate	% of Total
Health		$1,209,795,200	31.26
Education		697,099,900	18.02
Other Social Resources and Assistance to Local Governments and Taxpayers		736,267,300	19.03
• Community Services	$182,757,900		
• Culture, Heritage & Recreation	20,653,300		
• Employment Services & Economic Security	207,242,900		
• Labour	9,333,500		
• Municipal Affairs	39,001,800		
• Urban Affairs	59,477,900		
• Local Government General Support Grant	13,800,000		
• Tax Credit Payments	204,000,000		
Economic and Resource Development		528,673,000	13.66
• Agriculture	$ 70,272,200		
• Business Development & Tourism	17,030,100		
• Co-operative Development	7,455,900		
• Crown Investments	614,800		
• Energy & Mines	12,437,500		
• Environment & Workplace Safety & Health	12,321,500		
• Highways & Transportation	197,560,900		
• Housing	46,162,000		
• Industry, Trade & Technology	8,919,300		
• Natural Resources	84,864,600		
• Northern Affairs	26,537,200		
• Canada-Manitoba Enabling Vote	8,165,200		
• Hydro Rate Stabilization	36,331,800		
Manitoba Jobs Fund		78,458,600	2.03
Other Services		296,965,400	7.67
• Legislation	$ 11,217,800		
• Executive Council	2,601,900		
• Attorney-General	74,990,300		
• Civil Service	54,492,200		
• Consumer & Corporate Affairs	4,439,900		
• Emergency Interest Rate Relief	1,184,000		
• Finance - Departmental Programs	16,108,100		
• Government Services	130,931,200		
• Flood Control & Emergency Expenditures	1,000,000		
Public Debt Costs		322,347,500	8.33
TOTAL EXPENDITURE		$3,869,606,900	100.0

Source: Manitoba Budget, 1986/87, page A-5.

MANITOBA REVENUES AND EXPENDITURES, 1981/82 TO 1986/87

	1981/82	1982/83	1983/84	1984/85	Preliminary Actual 1985/86	Budget 1986/87
Expenditure						
Total Expenditure						
$ millions	2,431.9	2,843.6	3,226.1	3,407.2	3,644.8	3,869.6
% change	18.2	16.9	13.5	5.6	7.0	6.2
Program Expenditure (less Public Debt Costs)						
$ millions	2,317.9	2,681.8	2,986.4	3,182.7	3,381.8	3,547.3
% change	17.1	15.7	11.4	6.6	6.3	4.9
Revenue						
Manitoba Collections						
$ millions	714.1	804.3	1,052.2	1,110.6	1,234.0	1,337.2
% change	17.1	12.6	30.8	5.6	11.1	8.4
Income Taxes						
$ millions	629.2	685.3	707.1	716.4	776.2	866.2
% change	19.9	8.9	3.2	1.3	8.4	11.6
Federal Transfers						
$ millions	837.5	919.4	1,027.9	1,097.6	1,105.3	1,176.8
% change	0.4	9.8	12.9	5.8	0.7	6.5
Total Revenue						
$ millions	2,180.8	2,409.0	2,797.2	2,924.6	3,115.5	3,380.2
% change	10.8	10.5	16.1	4.6	6.5	8.5
Budgetary Requirements						
Net Operating Deficit						
$ millions	23.0	196.7	165.4	190.0	253.8	223.6
Plus Capital Expenditure						
$ millions	228.1	238.0	263.5	291.6	275.5	265.8
Total Budgetary Requirement						
$ millions	251.1	434.6	428.9	482.5	529.3	489.4
% change	180.4	73.1	<1.3>	12.5	9.7	<7.5>
Inflation Index (Winnipeg CPI)	100.0	108.8	116.1	120.3	125.3	130.6

Source: Public Accounts, Financial Reports, 1986/87 Budget.

MANITOBA TAX EXPENDITURE ACCOUNT

Tax expenditures are provisions built into the tax system which give preferences intended to encourage individuals or enterprises to complement governments' social and economic policy objectives. They may take the form of tax exemptions, deductions, deferrals, reduced tax rates, or tax credits. Consideration of governments' fiscal positions and the degree of public activity in the economy is incomplete without an account of tax expenditures.

The Manitoba Tax Expenditure Account provides estimates of the provincial tax expenditures for major items and categories of items. The estimates are calculated from tax collection and Statistics Canada data. They include figures for 1983 (the last year for which actual income tax data is available) and projections for 1986. A computer model was used to generate the income tax expenditure estimates. Some tax expenditures other than those listed could not be estimated because data is not presently available.

Source: 1986 Budget, pages C7-C10.

Manitoba Tax Expenditure Account

PERSONAL INCOME TAX	1983	1986
	($ millions)	
Deductions:		
- Contributions to:		
° Registered Pension Plans	26.3	32.9
° Registered Retirement Savings Plans	27.2	29.4
° Canada Pension Plan	11.5	15.5
- Employment expense deduction	23.1	25.1
- $1,000 investment income	23.6	24.8
- Unemployment insurance	14.0	19.5
- Charitable donations	12.8	18.2
- Other employment expenses	5.4	6.7
- $1,000 private pension income	5.2	5.5
- Union dues	4.7	5.4
- Spousal deductions transfers	3.3	3.6
- Contributions to Registered Home Ownership Plans	3.1	-
- Tuition fees	2.0	2.9
- Medical expenses	1.5	2.2
- $50 per month for education	1.2	1.3
Exemptions:		
- Spousal/equivalent exemption	35.8	38.2
- Children and other dependents	24.3	26.0
- Age exemption and disability deduction	22.1	27.0
- $500 of research grants, bursaries and scholarships	0.2	0.2
Exclusions:		
- Employee benefits	23.6	27.9
- Preferences for capital gains	13.5	26.1
- Life insurance/health benefits	17.8	21.4
- Veterans'/services' allowances and pensions	5.8	6.2
- Northern allowances	0.5	0.5
Tax Credits:		
- Dividend gross-up and tax credit	15.8	22.9
Other Provisions:		
- 5-year block averaging provision for farmers and fishermen	0.5	0.5

CORPORATION INCOME TAX	1983	1986
	($ millions)	
Deductions:		
- Small business deduction (lower tax rate)	10.4	14.4
- One-half taxation of capital gains	9.6	12.8
- Excess capital cost allowance over book depreciation	9.6	12.5
- Fast write-off of Canadian exploration and development expenses and depletion allowances	4.3	5.7
- Patronage dividends by Co-ops and Credit Unions	1.1	1.5
- Charitable donations	1.0	1.4
- Scientific research expenditures	1.0	1.3
Tax Credits:		
- Manitoba Manufacturing Investment Tax Credit	-	5.0

RETAIL SALES TAX		
Exemptions:		
- Food	66.0	89.6
- Personal services	15.9	18.3
- Farm machinery and repair parts	9.1	11.5
- Meals under $6.00 served in restaurants	7.4	10.5
- Agricultural feed and livestock	7.6	9.5
- Drugs and medicines	4.7	5.5
- Children's clothing and footwear	3.8	4.3
- Books, newspapers and periodical publications	3.3	4.1
- Medical supplies, appliances and equipment	3.1	3.7
- Public transportation (excluding air)	2.7	3.6
- Vehicle resale and mobile, ready-to-move and modular homes	2.1	3.1
- Thermal insulation materials and energy-saving devices	2.1	2.8
- Personal hygiene products	0.9	1.0

FUEL TAXES	1983	1986
	($ millions)	
Exemptions:		
- Marked gasoline and motive fuel	30.9	33.8
Taxed at Lower Rates:		
- Clear diesel for use in locomotives	6.6	-
- Marked diesel fuel for off-highway use	1.4	1.6
- Gasohol	1.6	1.5
LEVY FOR HEALTH AND POST-SECONDARY EDUCATION		
Exemptions/Reductions:		
- Employers with payrolls under $50,000/$75,000	-	7.0
CORPORATION CAPITAL TAX		
Exemptions:		
- Corporations with taxable capital less than $1,000,000	7.5	13.0
- Some Crown Corporations	6.0	10.5
- Credit Unions and Caisses Populaires	2.6	4.9
- Co-ops	2.2	3.9
- Family farm corporations	0.3	0.6

September 15, 1986.

INTER-PROVINCIAL COMPARISON OF MAJOR LEVIES

	RATES									
	NFLD.	P.E.I.	N.S.	N.B.	QUE.	ONT.	MAN.	SASK.	ALTA.	B.C.
Personal Income Tax (% of Basic Federal Tax)	60.0	52.5	56.5	58.0	**	50.0(a)	54.0(a)	50.0(a)	43.5	47.5(a)
Corporation Income Tax (% of Taxable Income)										
• Large	16.0	10.0	15.0	15.0	5.9	15.5	17.0	17.0	11.0	16.0
• Small	10.0	10.0	10.0	9.0	3.2	10.0	10.0	10.0	5.0	8.0
Sales Tax (%)	12.0	10.0	10.0	11.0	9.0	7.0	6.0	5.0	-	7.0
Gasoline (¢/l.)	9.5	8.3	9.8	8.0	13.65	8.3	8.0(c)	-	-	6.47
Diesel Fuel (¢/l.)	12.9	10.1	9.0	10.0	12.45	9.9	9.2	-	-	6.91
Tobacco Tax (¢/cig.)	4.78(d)	3.50	3.50	4.00	4.52	2.70(d)	4.10	4.08	1.48	3.44
Capital Tax (%)	-	-	-	-	0.48	0.3	0.3	0.5	-	0.2
• Banks (%)	1.5	-	1.5	-	0.97	0.8	3.0	3.0	-	2.0
Employer Health/Education Levies (% of compensation paid)										
• $15,000	-	-	-	-	3.22	4.76(e)	1.5	-	2.24(e)	2.56(e)
• $20,000	-	-	-	-	3.22	3.57(e)	1.5	-	1.68(e)	1.92(e)

** The Quebec personal income tax is levied directly against taxable income.
(a) These provinces impose surtaxes on higher income taxpayers. Saskatchewan also levies a 1.0% flat tax on "net income."
(b) Includes sales tax on utilities.
(c) Manitoba levies a 0.9¢/l. surcharge on leaded fuel.
(d) These provinces also apply sales taxes to tobacco products.
(e) These provinces do not have employer levies per se. However, employers generally pay health/medicare premiums on behalf of employees. The rates shown reflect the family premium rates currently in effect.